



Claire McCaskill

Missouri State Auditor

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January 2006

City of Excelsior Estates,  
Missouri

Year Ended December 31, 2004



Office Of  
Missouri State Auditor  
Claire McCaskill

January 2006

The following problems were discovered as a result of an audit conducted by our office of the City of Excelsior Estates, Missouri.

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The city of Excelsior Estates is in poor financial condition and appears to be subsidizing the Sewer Fund with restricted receipts. The city's cash balance has declined over the past several years, and at December 31, 2004 was \$1,259. Liabilities to the Mayor exceeded \$2,700 for unreimbursed expenses and services provided by a business owned by the Mayor. In addition, \$32,000 in delinquent sewer billings has not been collected and significant legal costs were incurred to file lawsuits to collect on these accounts. Significant unplanned repairs and improvements were required to the sewer system during 2004 to settle a lawsuit with the Attorney General's Office, which also impacted the city's financial position.

The city has not established a fund accounting system, but rather accounts for most activity from one bank account, which combines the General, Sewer, and Street Funds. As a result, the city is unable to determine if receipts for each fund are sufficient to fund like operations. The sewer fee was increased from \$15 to \$30 per month in August 2004, but it is unclear if this increase was adequate, due to the lack of record keeping.

The mayor engaged in activities which appear to be conflicts of interest and a former board member was paid to fill in as City Clerk. The city borrowed \$1,500 from a company owned by the mayor and paid a company owned by the mayor over \$2,500 to perform various sewer and flood control projects during January 2005. Documentation was not maintained for quotes solicited from other lending institutions and the sewer work was not bid until February 2005.

Monthly financial reports presented to the board are in need of improvement. While the mayor has improved these reports since taking over in April 2004, the reports currently prepared are not always complete and are not presented to the board for review or approval. The Mayor serves as the City Treasurer and beginning in March 2005 was responsible for most record keeping duties of the city, but no review of the work performed by the mayor was done by an independent person.

Receipt slips are not issued for some monies received, checks and money orders are not restrictively endorsed immediately upon receipt, some city officials with access to cash are not bonded, and bank reconciliations are not performed monthly.

(over)

YELLOW SHEET

The board minutes do not normally contain indication of board approval for disbursements and the board does not normally review invoices before payment. In addition, the Mayor has been purchasing items for the city with his personal funds, without board approval, and then requesting reimbursement. From January 2004 through May 2005, the Mayor requested reimbursements totaling approximately \$5,300. Additionally, the city does not have a formal bidding policy, or formal written agreements with some companies and individuals providing services.

The cost study prepared by the mayor to support increasing the sewer fee shows the proposed sewer rate would not be sufficient to fund the estimated sewer system costs. While costs were estimated at approximately \$34,000, the cost study only estimated receipts at \$27,600. The board had not followed adopted ordinances related to sewer late fees or disconnections. While delinquent sewer bills total over \$30,000, no disconnections have been performed, as required by city ordinance. Additionally, the city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for sewer services, which would help ensure accounting records balance, transactions have been properly recorded, and errors are detected and corrected on a timely basis.

Also included in the report are recommendations related to budgets and financial reporting, restricted revenues, meeting minutes and ordinances, and street maintenance.

The mayor and board believe that the city is in excellent financial condition given their recent challenges. They provided explanations and reasons for some audit findings, but failed to produce documentation supporting some of their contentions. Additionally, there were several issues to which the board simply chose not to respond.

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CITY OF EXCELSIOR ESTATES

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Alderman  
City of Excelsior Estates

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Excelsior Estates, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2004. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of Excelsior Estates, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

June 16, 2005 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Tania Williams

MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS



CITY OF EXCELSIOR ESTATES  
MANAGEMENT ADVISORY REPORT –  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Financial Condition</b>
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The city of Excelsior Estates is in poor financial condition due to inadequate oversight and monitoring by the Board of Alderman, numerous internal control weaknesses, lax controls over expenditures, and improper uses of restricted receipts.

The city's cash balance has declined over the past several years, and at December 31, 2004 was \$1,259. The city had liabilities to the Mayor of approximately \$1,330 for unreimbursed expenses and to a business owned by the Mayor of over \$1,450 for sewer work. In addition, \$32,000 in delinquent sewer billings has not been collected and lawsuits associated with these delinquent accounts have been filed, which has increased legal costs. Another reason for the low cash balance is that significant unplanned repairs and improvements were required to the sewer system during 2004 due to a lawsuit the city settled with the Attorney General's Office.

The city accounts for all general and operating expenses from one bank account, which combines the General Fund, Sewer Fund, and Street Fund. The city's two other funds, Police and Water Quality Fees, are maintained in separate bank accounts, but had been depleted by year end due to transfers to the combined General, Sewer and Street Fund. Except for the General Fund, receipts are restricted for specified purposes; however, it appears the city may be using some restricted monies to subsidize the Sewer Fund. The city has not established a fund accounting system to track the receipts, disbursements and cash balances of the various funds and the annual budget was not separated by fund and lacked many of the required elements. As a result, the city is unable to determine if receipts for each fund are sufficient to fund like operations. The city increased the sewer fee from \$15 to \$30 in August 2004, but the overall lack of record keeping has not allowed the city to clearly establish whether the full increase was adequate, since it appears the General and Street Funds' receipts are subsidizing the Sewer Fund.

The board must monitor the financial condition of the city and develop a long range plan which will allow the city to reduce its disbursements and/or increase receipts to operate the city within its available resources. The city has begun legal action to collect on delinquent sewer bills, but has not received a significant portion of the amount due. The board needs to segregate the Sewer and Street Funds, replenish the Police and Water Quality Fee Funds, and ensure that these receipts are only used to pay disbursements for providing these services. The recommendations contained in the remaining MAR's, if implemented, will help the city establish procedures to operate within its available resources.

**WE RECOMMEND** the Board of Alderman develop a long term plan to operate within its available resources. In addition, the board must closely monitor the financial

condition of the city by preparing a detailed operating budget and periodically comparing budgeted and actual receipts and disbursements.

### **AUDITEE'S RESPONSE**

*The City of Excelsior Estates is in excellent financial condition considering the challenges of 2004. The board faced the following after the April 2004 election:*

*A lawsuit from the Attorney General and Department of Natural Resources (DNR) threatened the existence of the city due to non-compliance of the sewer plant discharge. (filed Jan. '04 – this has been an issue for more than 10 years.)*

*Heavy rains and neglected maintenance of the sewer system resulted in multiple sewer problems requiring immediate repair.*

*Quick action by the Mayor, with the support of the board, resulted in fixing the sewer plant and bringing it into compliance with the DNR discharge specifications, settling the lawsuit by October 15, 2004, and the sewer repairs were accomplished at minimal cost considering the magnitude of the problems. The sewer system and sewer treatment plant repairs of \$12,666 and legal expense of \$4,718 are higher than 2003, which were \$1,585 and \$878, respectively.*

*Also accomplished by the new council, was the increase of the monthly sewer fee from \$15 to \$30, after 3 months of study and often heated debates. The city's cash position at year end did decline by \$5,854, but the nearly \$15,000 increase in costs tend to explain. The extra legal expense was primarily due to legal action to collect past due sewer fees, which yielded some results, but not from Red Rock Land Co., which owes over \$20,000, having not paid since 1999.*

*Road repairs for 2004 totaled \$6,862, up from \$2,529 in 2003. An increase of \$4,333 brings the cost increase to over \$19,000 vs. 2003. However, Road Fund receipts of \$11,000 indicate non-compliance with requirements for this restricted fund, but a substantial improvement over 2003 (Road Fund receipts of \$10,658). When the past due sewer fees are collected, they will be used to settle up with the Road Fund.*

*From the above, it should be clear that careful planning and teamwork by the board yielded the above extraordinary result.*

*The City used "cost centers" which is the general business equivalent of "Fund". Prior to "QuickBooks" software being implemented by this council, there was no accounting system. Admittedly, no one on the council has prior municipal accounting background, just minimal bookkeeping for sewer accounts. This council supported a fully integrated system, which was put in place for 2004 and will be continued, including the means to provide "FUND" accountability.*

*The main checking account was researched to get a history of expenses and income for 2001, 2002, and 2003. This was not a huge undertaking since a typical month had only 5 deposits and 15 checks. From this a "Proforma" budget was prepared for various scenarios looking forward.*

*A firm budget was hard to pin down due to the variables of legal expense and unknown results from past due sewer fees.*

*Budget analysis and implementation is a "Process", and this process was begun immediately after the books were turned over after the April 2004 election. At the time, there were questions about needing a budget or not being able to budget due to limited resources, but efforts continued with several studies, but in view of the above "challenges" no formal budget was approved.*

*There was a lot of effort put into arriving at the sewer fee increase, over several months time. Initially, some council members were for a very small increase out of concerns for the residents. Others wanted the sewer fee to cover all costs of the sewer plant and sewer system. Logic and commonsense finally prevailed, and a reasonable and needed increase was approved.*

*At the hearing, a "straw" vote was taken of the approximately 15 residents in attendance, and the increase was accepted by all.*

*The Auditor was furnished a checking account print-out which explicitly states which fund the deposits belong to. This is our standard practice ongoing to segregate the income by fund.*

*No one on the board had any "formal" municipal training, therefore once the "Fund" concept and Dual Financial Procedure was explained by the Auditor, both were addressed and adopted to extent resources allowed. Since the city already had "QuickBooks" on the computer, completely implemented for 2004 including sewer billings, it was decided to stick with it (prior years there was no General Ledger Accounting system at all), and extract the "fund" information from "QuickBooks", which was done and continues. Municipal accounting software typically costs \$3000 and up (not in the budget), and would exceed available resources to implement.*

<b>2. Conflict of Interest</b>
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The mayor engaged in activities which appear to be conflicts of interest, including a business he owns loaning money to the city and a company he owns performing sewer work for the city without bid. In addition, a former board member was paid to temporarily fill in as City Clerk, which violates state law.

- In September 2004, the city entered into a short-term loan agreement to borrow \$1,500 from a company owned by the mayor. The mayor's company charged eight percent interest on the loan, which amounted to less than \$5 due to the short term nature of the loan. The mayor provided a copy of a request for a quote from a local bank, but the quote was not maintained.
- The city hired a company owned by the mayor to perform various sewer and flood control projects during 2005 and 2004 and billings totaling over \$6,800 have been submitted during that time. Bids were solicited in February 2005 for this type of work and the mayor's business was the only bidder. However, during January

2005, before bids were solicited, this business completed three projects related to the sewer, at a cost of \$2,457, which exceeded the statutory limit of \$1,500 without soliciting bids. The amount paid for work performed during 2004 was less than \$1,500. Section 105.454, RSMo, prohibits financial transactions between a city and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that city that involved more than \$1,500 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received. Effective August 28, 2005, the threshold for financial transactions between a city and an officer or employee was increased to \$5000 per year.

- A former board member was paid \$350 to temporarily serve as City Clerk in April 2004. Section 105.458, RSMo, states "no member of any legislative or governing body of any political subdivision of the state shall: (1) Perform any service for such political subdivision or any agency of the political subdivision for any consideration other than the compensation provided for the performance of his official duties".

Because the Mayor is an elected city officer and is responsible for procuring services for the city, these situations involving the mayor give the appearance of a conflict of interest. City officials should avoid any type of involvement in city decisions that relate to them or businesses in which they have an interest. Discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented to provide assurance that no city official or relative has profited improperly. In addition, the Board does not have a written policy addressing this situation, and should consider establishing an ordinance which addresses this type of situation and provides a code of conduct for city officials.

**WE RECOMMEND** the Board of Alderman avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. City officials who have a conflict that is unavoidable should fully disclose their interest and should not vote on matters which involve them personally. Such matters and transactions should be completely documented so that the public has assurance that no city official or agent has profited improperly. City officials should ensure strict compliance with the law when conducting city business and should consider adopting a code of conduct for city officials.

### **AUDITEE'S RESPONSE**

*The work in question was essential to compliance with the DNR agreement, and was pursued the prior 8 months, and no one would even give a bid. The risk was entirely born by the mayor's company, (VSI), and if they had not been the successful bidder (after the fact), then the bill could not have been submitted without breaking the law. The bill was not submitted until after the board approved the VSI bid.*

*The Mayor is the only one involved in potential conflict of interest due to work done for the city, and never voted on anything.*

**3.**

**Accounting Controls and Procedures**

Financial reports need to be complete and reviewed by the board monthly. The city has not adequately segregated duties, has not issued receipt slips for some monies received, and does not restrictively endorse checks and money orders immediately upon receipt. In addition, city officials are not bonded, dual signatures are not required on all checks, and bank reconciliations are not performed on a timely basis.

- A. Monthly financial reports are in need of improvement. During our audit period, only a listing of paid bills and bills to be paid was provided to the board for their review. The mayor has now developed a cash flow report that does provide the cash balance, a listing of deposits, disbursement made during the previous month, and some estimates of the following months anticipated receipts and disbursements, but there is no indication in the minutes these reports are reviewed by the board and some paid bills were not included on the reports. Complete financial reports, showing receipts, disbursements, and beginning and ending cash balances for each fund, would not only provide the board with critical data necessary to make financial decisions for the city, but would allow the public to be informed about the city's financial position. Due to the various other weaknesses noted and overall lack of record keeping, board members need to be receiving detailed financial reports monthly to help improve accountability over funds.
- B. The Mayor serves as the City Treasurer and beginning in March 2005 was responsible for most record keeping duties of the city. The Mayor was responsible for receiving, recording and depositing of receipts. In addition, the Mayor signed all checks and recorded all disbursements, performed bank reconciliations, and prepared financial reports. The mayor also receipted and recorded sewer payments and credit adjustments, and deposited sewer receipts. No personnel independent of the cash custody and the record-keeping functions provided adequate supervision or review the work performed by the Mayor. The current city clerk is now retrieving mail in payments and issuing receipt slips for those payment, and has begun reconciling the bank account.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, and recording payments. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between the bank deposits and recorded payments.

- C. Receipts slips are only issued to persons paying in cash. During the year ended December 31, 2004, several receipt books were used and the numerical sequence of receipt slips issued was not accounted for. Receipts are kept in a money bag at the Mayor or City Clerk's house until they are posted to the city computer system, which is typically done on a weekly basis. Without receipts slips supporting all amounts received, there is less assurance amounts received have been accurately posted to the system and deposited. To adequately account for all monies received, official prenumbered receipt slips should be issued for all monies received and the numerical sequence should be accounted for properly.
- D. Checks and money orders received are not restrictively endorsed immediately upon receipt. The endorsement is applied when the deposit is prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- E. The Mayor and current city officials are authorized to sign checks; however, these officials are not bonded. Failure to properly bond employees and city officials exposes the city to an unnecessary risk of loss.
- F. Bank reconciliations have not been performed on a monthly basis. Bank reconciliations for January 2004 to March 2005 were performed by the Mayor in April 2005. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records and to help detect errors on a timely basis.

**WE RECOMMEND** the Board of Alderman:

- A. Require the City Treasurer prepare monthly financial reports summarizing receipts, disbursements, and changes in the cash balance of each fund and ensure these reports are reviewed.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliation between receipts and deposits.
- C. Issue prenumbered receipt slips for all monies received and ensure the numerical sequence of all receipt slips is accounted for properly.
- D. Ensure checks and money orders are restrictively endorsed immediately upon receipt.
- E. Obtain bond coverage for all officials with access to cash.
- F. Ensure formal bank reconciliations are prepared on a monthly basis. Any differences should be investigated and resolved in a timely manner.

## **AUDITEE'S RESPONSE**

*A, D*

*&F. The board provided no response.*

*B. Dual control, as recommended by the Auditor, was implemented immediately in May 2005.*

*C. Issuing sequential receipts was implemented immediately after recommended by the Auditor.*

*E. The Mayor has been bonded since January 2005, and Judy Conklin was also bonded until she retired. Unexplained difficulties were experienced by Nancy Lewis in obtaining a bond. Rita Wheeler has a bond application submitted.*

<b>4. Expenditures</b>
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Board approval for disbursements is not normally given and the mayor routinely makes purchases for the city without board approval. The city does not have a bidding policy and failed to take bids for some purchases, does not have contracts for some services, and does not issue 1099-MISC forms when required. In addition, the city paid \$250 each to three individuals upon the death of a spouse, which does not appear to be a prudent use of public funds.

A. The board minutes do not normally contain indication of board approval for disbursements and the board does not normally review invoices before payment. A listing of bills, some paid and some still due, was apparently provided to the board in the past, although this listing was not made a part of the official minutes. The mayor now prepares a cash flow report, which includes a summary of the prior month's disbursements and bills to be paid; however, this report is not reviewed and approved by the board and the majority of bills have been paid at the time it is prepared. In addition, the Mayor has been purchasing items for the city with his personal funds and then requesting reimbursement for those expenses since January 2004. None of these purchases appeared to be approved by the board. There were several instances where expenses would accumulate for several months before the Mayor would request reimbursement. From January 2004 through May 2005, the Mayor requested reimbursements totaling approximately \$5,300.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board members to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board or someone independent of the disbursement process before payment is made. Failure to properly review all invoices and supporting documentation, and to

document authorization, increases the possibility of inappropriate disbursements occurring.

- B. The city does not have a formal bidding policy. As a result, the decision of whether to solicit proposals is made on an item-by-items basis. Bids were not solicited in several instances, including grading roads (\$1,170), sewer clean out (\$1,240), and snow removal (\$1,076).

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives a fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids/proposals can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

- C. The city did not have formal written agreements with some companies and individuals providing services. During the year ended December 31, 2004, \$8,450 to sewer plant operators, and \$4,348 to the city attorney, were paid for services without a contract.

Formal written agreements are necessary to document each parties duties and responsibilities and to prevent misunderstandings. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- D. The City does not issue W-2 Forms or Forms 1099-MISC as required. The city paid the city clerk \$2,450 and the two sewer plant operators \$8,450, but did not issue W-2 forms or 1099-MISC forms to these individuals. The city has not established procedures to identify employee wages, which are subject to state and federal withholdings and should be reported on a W-2 form and non-employee wages which require a 1099-MISC form.

Federal and state regulations require that proper withholdings be made from all salaries and wages and that gross wages be reported on a W-2 form. If these type payments are not considered salaries and wages, Sections 6041 through 6051 of the Internal Revenue Code require that nonwage payments of at least \$600 in one year to an individual or unincorporated business be reported to the federal government on Form 1099-MISC.



- E. The city paid \$750 in total for bereavement contributions to three citizens upon the death of their spouse in 2004. The mayor indicated that these types of payments have been made in the past upon the death of a resident's spouse.

Such payments appear to violate Article VI, Section 23 of the Missouri Constitution which prohibits any political subdivision of the state from granting or lending money to an individual, and may not be a prudent use of city resources.

**WE RECOMMEND** the Board of Alderman:

- A. Ensure the approval of all disbursements is adequately documented by including a listing of all disbursements in the board minutes, and requiring supporting documentation be reviewed by the board or someone independent of the disbursements process before payment is made.
- B. Establish formal bidding policies and procedures. Documentation should be maintained of bids obtained including the justification of why bids were selected or rejected.
- C. Enter into written contractual agreements for professional services.
- D. Ensure payments totaling greater than \$600 are either considered wages and subjected to withholdings and proper reporting or are reported as payments to non-employees and unincorporated businesses and are properly reported to the Internal Revenue Service.
- E. Ensure all expenditures of city monies are a prudent use of public funds and discontinue bereavement payments to citizens.

**AUDITEE'S RESPONSE**

- A. *To the extent possible, with one meeting a month, expenditures were presented to the council prior to their payment. Some payments, during the course of dealing with the city maintenance, were presented to the council after the fact and approved.*
- B. *Time constraints do not allow formal bidding for most of the work the city needs:*
- *Rain damage to the roads, which requires immediate attention. We would buy gravel from Missouri Rock (phone bids are taken, and they are always low bidder). VSI uses the city's unloader to spread the gravel. The cost is half or less the bid used in early 2004.*
  - *A manhole runs over, so VSI fixes it. VSI was the only bidder for maintenance work.*

*In January 2004, several hundred dollars were spent bidding roadwork. The only bid was the same company that did it before, but at a much higher cost than current.*

*The Sewer Disconnect Cleanouts were advertised bids – VSI was the only bidder.*

*C&D. The board provided no response.*

*E. The bereavement payments were a tradition with prior history. It has been discontinued.*

#### **AUDITOR'S COMMENT**

- B. The city provided no bid documentation of phone bids taken for gravel purchases or street work performed in early 2004.

<b>5. Sewer System</b>
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The cost study prepared by the mayor to support increasing the sewer fee shows the proposed sewer rate would not be sufficient to fund the estimated sewer system costs. In addition, ordinances related to late fees and delinquencies should be enforced and a reconciliation of total billings, payments received and delinquent amounts is not performed.

- A. The cost study prepared by the mayor to support increasing the sewer fee shows that the anticipated revenues from increasing the sewer rate to \$30 per customer would not be sufficient to fund the costs of the sewer system. The city's sewer fees have been \$15 per customer for the past several years, but in August 2004, the city increased the sewer fee to \$30 per customer. The cost study estimates sewer revenue of \$27,600, but total costs of the sewer system were estimated at approximately \$34,000, leaving the shortfall in sewer receipts to be subsidized by the General and Street Fund. The city needs to ensure the sewer rate is adequate to cover the costs of providing the related service, as required by state law.

Section 67.042, RSMo, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service. Sewer fees are user charges which should cover the cost of providing the related services.

- B. The Board of Aldermen has not followed the adopted ordinances regarding late fees and disconnections for customers who do not pay their bill. City ordinance states that any billing to residents which is not paid by the due date of billing, the 15th of each month, shall be charged a \$3.00 late fee. Sixteen sewer billings from October, November, and December 2004 were reviewed and six accounts were not charged late fees although they were not paid by the 15th of the month. Delinquent sewer bills total over \$30,000, but no disconnections have been performed, as required by ordinance.

To reduce delinquencies, ensure delinquent accounts are properly handled, and ensure equitable treatment of all customers, the city should enforce their ordinance regarding shut-off procedures and ensure delinquent penalties are charged in a consistent manner and in accordance with city ordinance.

- C. The city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for sewer services. No one reviews or compares monthly statements with monthly reports of amounts billed to each customer, total deposits made, and cumulative delinquent balances for each applicable customer. At May 1, 2005, the city reported a total of \$32,301 was due from sewer customers, including delinquent penalties.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be retained to support conclusions and any corrections made.

**WE RECOMMEND** the Board of Alderman:

- A. Ensure the sewer rate is adequate to cover the costs of providing sewer service.
- B. Enforce the sewer ordinance and ensure delinquent penalties are charged in a consistent manner and for the amounts set in the ordinance, and ensure adequate measures are taken to collect delinquent accounts, including the enforcement of shut-off procedures.
- C. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.

**AUDITEE'S RESPONSE**

*The board provided no response.*

<b>6. Budgets and Financial Reporting</b>
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The city's annual budget combined all funds into one budget and lacked many of the elements required by state law. In addition, the city does not prepare or publish semi-annual financial statements and annual audits have not been obtained.

- A. Annual budgets are in need of improvement. Budgets had not been prepared for city funds in the past, but the mayor prepared a budget for the combined general, sewer, and street fund in June 2004. The mayor indicated this budget covered the year ended December 31, 2004, but the budget document did not indicate the year covered. Proposed disbursements exceeded anticipated revenues and because cash balances were not part of the budget, a deficit budget was presented. A 2005

budget was prepared by the mayor which showed estimates of income and expenses separated for the general, sewer, and street funds, but this budget was not prepared until May 2005, according to the mayor. Neither the 2005 or 2004 budget contained a budget message, the previous two years actual receipts and disbursements, a budget summary, nor cash balances. There is no documentation in the minutes to indicate either of the budgets were presented to the board for review and we saw no evidence they were approved by the board.

Section 67.101, RSMo, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year, and include the estimated revenues and proposed expenditures.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget could also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include appropriate revenue and expenditures estimations by classification, and include the beginning available resources and reasonable estimates of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for preceding fiscal years.

- B. The city does not prepare or publish semiannual financial statements. In addition, the city has not submitted an annual financial report to the State Auditor's office since December 31, 2003. Section 79.160, RSMo, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six-month period. Section 79.165 RSMo, states the city cannot legally disburse funds until the financial statement is published. In addition, Section 105.145, RSMo, requires each political subdivision to file an annual report of its financial transactions with the State Auditor's office.
- C. The city has not obtained annual independent audits as required by state law. Considering the various internal control weaknesses noted and lack of financial reporting to the board and public, the city should at least consider obtaining periodic audits of their financial statements. Section 250.150, RSMo, requires an annual audit of all city sewerage system accounts whenever rates and charges are established and collected for such services.

**WE RECOMMEND** the Board of Alderman:

- A. Prepare a budget in compliance with state law, and make periodic comparisons between budgeted and actual expenditures.

- B. Prepare and publish semi-annual financial statements as required by state law. In addition, submit annual financial reports to the State Auditor's office.
- C. Require an annual independent audit be performed of all city funds.

### **AUDITEE'S RESPONSE**

*The board provided no response.*

**7.**

### **Restricted Revenues**

The city has not established a separate accounting for motor vehicle-related revenues and sewer user fees and some restricted revenues were inappropriately transferred to the General Fund without board approval.

- A. The city has not established a separate accounting for the motor vehicle-related or the sewer user receipts and related disbursements. Motor vehicle-related revenues and sewer user fees are deposited by the city into the General Fund. Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle related revenues apportioned by the state of Missouri be expended for street-related purposes including policing, signing, lighting, and cleaning of roads and streets. Section 250.150, RSMo, requires the revenues of a sewer system be segregated from all other revenues or funds of the city.
- B. Some restricted revenues were transferred to the Sewer Fund inappropriately and board approval for these transfers was not documented. Approximately \$3,400 was transferred in June 2004 from the Police Fund to the Sewer Fund, and approximately \$262 was transferred in July 2004 from the Water Quality Fee Fund to the Sewer Fund. The mayor indicated the transfer from the Police Fund was made due to the financial condition of the Sewer Fund and because the monies were not needed for their restricted purpose. The establishment of the Police Fund was voter approved and is funded with one of the franchise fees collected by the city. The mayor indicated the transfer from the Water Quality Fee Fund was to correct an error made when depositing sewer funds in the past, but this was not documented. The Water Quality Fee Fund is funded by an additional fee assessed on sewer bills. These monies were not intended for the general operating expenses of the city and there was no documentation to indicate the board authorized the transfer of these funds.

Revenues restricted for a specific purpose should not be used for general operating expenses of the city. The General, Sewer, and Street Fund owes the Police Fund approximately \$3,400 and the Water Quality Fee Fund approximately \$262.

**WE RECOMMEND** the Board of Alderman:

- A. Establish the necessary records to account for those monies restricted for specified purposes and allocate expenditures to the appropriate funds.
- B. Establish procedures to document the approval of all inter-fund transfers and consider repaying the monies transferred improperly into the General, Sewer, and Street Fund.

**AUDITEE'S RESPONSE**

- A. *The "QuickBooks" system has reported expenses by "Cost Center" (equivalent to "Fund") for road maintenance, sewer treatment plant operation, and sewer system maintenance since the beginning of 2004. The accountability is there, even though there is only one bank account.*
- B. *Monies were transferred to the Sewer Fund because it was not adequately funded due to low sewer fees and unusual expenses.*

<b>8. Meeting Minutes and Ordinances</b>
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The Board of Aldermen has not developed a formal policy regarding public access to city records, board meeting minutes were not maintained for several meetings, and other minutes were not signed by the clerk and mayor. In addition, ordinances have not been adopted to establish the duties and compensation of all elected and appointed officials and employees.

- A. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and copies of the city records would establish reasonable guidelines for the city to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and the cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making city records available to the public. Section 610.026, RSMo, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

- B. Board meeting minutes were not maintained for several meetings. Minutes of January, February and April 2004, and March 2005, could not be located. Section 79.320, RSMo, requires the city clerk to keep a record of all proceedings of the board of aldermen.

Complete and accurate minutes of the board's meetings are necessary to retain a record of the business conducted by the board and to show the approval or disapproval of the issues discussed at the meetings.

- C. Board minutes are usually prepared by the city clerk; however, they are not signed by the city clerk and mayor. The board minutes should be signed when prepared by the city clerk. The minutes should also be signed by the mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.
- D. The City has not adopted ordinances to establish the compensation and duties of elected and appointed officials and employees. Section 79.270, RSMo, requires the compensation of officials and employees to be set by ordinance, and the salary of an official shall not be changed during the term of election or appointment. Section 79.290, RSMo, requires the duties of all officials be set by ordinance.

Compensation rates set by ordinance, in addition to meeting statutory requirements, document the approved amounts to be paid and eliminate potential misunderstandings on the amount each city official and employee is to receive, and is necessary to ensure the compensation of an official is not changed during the term of office. Ordinance hearings provide for public input and information concerning the compensation paid. In addition, documentation of duties and job descriptions would clarify the duties and responsibilities of each official and employee and prevent misunderstandings.

**WE RECOMMEND** the Board of Aldermen:

- A. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.
- B. Ensure minutes of the board meetings are maintained.
- C. Require the board minutes be signed by the city clerk upon preparation and the mayor upon approval.
- D. Establish ordinances setting the compensation and duties for all elected and appointed officials and employees as required by state law.

**AUDITEE'S RESPONSE**

- A. *The policy of this board has been to provide access to city records by posting them on the internet on the city's website ([www.excelsiorestates.org](http://www.excelsiorestates.org)). However, other priorities have precluded this, such as the DNR lawsuit, the Red Rock lawsuit, State of Missouri audit, not to mention fixing the sewer plant, maintaining the roads, making city hall usable, all within the "budget". The board will develop a policy regarding public access to city records.*

*B&C. The board provided no response.*

*D. Existing ordinances establish compensation of the Mayor and Aldermen as "unpaid".*

#### **AUDITOR'S COMMENT**

D. The city did not provide the ordinances referred to in their response.

<b>9. Street Maintenance Plan</b>
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A formal street maintenance plan for the city streets has not been prepared annually. A financial report prepared by the mayor at our request indicated that approximately \$5,800 was spent on street maintenance in 2004. In January 2005, the mayor prepared a maintenance summary report for 2004 and a maintenance forecast report for 2005 which included some general information about road maintenance. These reports contained very little detail about what roadwork was done during 2004 or the proposed work for the upcoming year. In addition, there is no documentation to support that these reports were reviewed by the board.

A street maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, a cost estimate, the dates such work could begin, and any other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Alderman prepare a formal maintenance plan for the city streets at the beginning of the year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

#### **AUDITEE'S RESPONSE**

*The \$11,000 nominal Road Fund annual income only allows for "band aid" fixes of the almost 3 miles of roads in the city. Typically this means adding gravel to alleviate ruts and potholes monthly in response to spot deterioration due to rain, etc. We now have a pickup snowplow/sand spreader for winter, which requires insurance and maintenance. This equipment was given to the city by North Kansas City, Missouri in the spring of 2005.*



HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF EXCELSIOR ESTATES, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The City of Excelsior Estates, Missouri, is located in Clay and Ray Counties. The city was incorporated in November 1986, and is currently a fourth-class city. The population of the city in 2000 was 263.

The city government consists of a mayor and four-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen and other officials during the year ended December 31, 2004, are identified below. The members of the Board of Aldermen and Mayor serve without compensation.

Board of Trustees	Dates of Service During the Year Ended December 31, 2004	Compensation Paid for the Year Ended December 31, 2004
Gary Fesenmeyer, Sr., Mayor (1)	April 2004 to December 2004	
Steve Crowell, Jr, Mayor	January 2004 to April 2004	
Dean Coffman, Alderman (2)	January 2004 to December 2004	
Robert Tabberer, Alderman (3)	June 2004 to December 2004	
Kris Karnes, Alderman (4)	January 2004 to December 2004	
Judy Conklin, Alderman (5)	January 2004 to December 2004	\$350
Other Principal Officials	Dates of Service During the Year Ended December 31, 2004	Compensation Paid for the Year Ended December 31, 2004
Kelly Crowell, City Clerk	January 2004 to April 2004	\$1,050
Nancy Lewis, City Clerk (6)	May 2004 to December 2004	\$2,450
Barton, Hall & Schnieders, City Attorney	January 2004 to December 2004	\$4,348

(1) Serves as the City Treasurer.

(2) Reelected in April 2005 but resigned in October 2005. Mary Slankard was appointed in November 2005.

(3) Appointed in June 2004 to fill the unexpired vacant seat created when the member-elect never took her oath of office.

(4) Reelected in April 2005.

- (5) Served as the City Clerk temporarily for April 2004 after Kelly Crowell resigned. Resigned in March 2005. A replacement has not yet been appointed.
- (6) Appointed in May 2004. Nancy resigned in July 2005 and Rita Wheeler was appointed in November 2005.

A summary of the city's financial activity for the year ended December 31, 2004.

	<b>General, Sewer &amp; Street Fund</b>	<b>Police Fund</b>	<b>Water Quality Fee</b>	<b>Total</b>
<b>RECEIPTS</b>				
Franchise fees	\$ 7,412	0	0	7,412
Dog tags	45	0	0	45
Road fees	10,946	0	0	10,946
Sewer fees	19,853	0	0	19,853
Permits	120	0	0	120
Interest	8	8	0	16
Loan principal	1,500	0	0	1,500
Transfer in	3,662	0	0	3,662
Total Receipts	<u>43,545</u>	<u>8</u>	<u>0</u>	<u>43,553</u>
<b>DISBURSEMENTS</b>				
Auto expense	229	12	0	241
Bank service charge	125	0	0	125
Contracted services	12,300	0	0	12,300
Interest	469	0	0	469
Maintenance	16,917	0	0	16,917
Municipal charges	196	0	0	196
Office supplies	405	0	0	405
Postage and delivery	492	0	0	492
Printing	348	0	0	348
Professional fees	4,718	0	0	4,718
Telephone	715	0	0	715
Utilities	2,639	0	0	2,639
Contributions	750	0	0	750
Loan principal	5,418	0	0	5,418
Transfers out	0	3,400	262	3,662
Total Disbursements	<u>45,723</u>	<u>3,412</u>	<u>262</u>	<u>49,397</u>
Receipts Over (Under) Disbursements	(2,178)	(3,404)	(262)	(5,844)
Cash Balance, January 1	3,428	3,413	262	7,103
Cash Balance, December 31	<u>\$ 1,250</u>	<u>9</u>	<u>0</u>	<u>1,259</u>